State of Rhode Island and Providence Plantations

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Patrick C. Lynch, Attorney General

April 23, 2009

Luly Massaro, Clerk
Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: National Grid Accelerated Procurement Plan, Docket 4041.

Dear Ms. Massaro:

Attached for filing with the Commission is the position of the Division of Public Utilities and Carriers to National Grid's Accelerated Procurement Plan for Standard Offer Service for 2010. Without waiving any of the rights and privileges otherwise associated with confidential communications between the Division and its expert, the Division's position statement has been structured in the form of a memorandum from Richard Hahn of LaCapra Associates to Stephen Scialabba, Chief Accountant for the Division a format necessitated by short time-period for filing testimony in the pending matter. Mr. Hahn and LaCapra have been engaged by the Division to assist it in its review of standard offer procurement for the post-2009 period. Mr. Hahn's resume is attached to this letter as well. Mr. Hahn will be available at the April 28th hearing.

Very truly yours,

Leo J. Wold
Special Assistant Attorney General

cc: Service List

To: Steve Scialabba – Rhode Island Division of Public Utilities and Carriers

From: Dick Hahn – La Capra Associates

Date: April 23, 2009

RE: R.I.P.U.C. Docket No. 4041
Rhode Island Standard Offer Service
National Grid Accelerated Procurement Plan

This memorandum summarizes La Capra Associates' review of the National Grid Accelerated Procurement Plan, and of the related discovery received.

Summary

On April 9, 2009, Narragansett Electric Company, d/b/a National Grid ("NGRID") filed an Accelerated Procurement Plan ("APP") as part of their efforts to procure Standard Offer Service ("SOS") for Small Customers for 2010. Specifically, NGRID seeks approval from the Commission to enter into a fixed price financial swap contract in order to lock in a percentage of the energy portion of SOS supply to Small Customers for 2010 and part of 2011. This financial swap contract, which serves as a hedge against future increases in energy prices, is part of a proposed transition from 100% reliance on Full Requirements Service ("FRS") to a managed portfolio approach. Later this year, NGRID intends to issue a solicitation for FRS for 2010. The value of the energy hedge will be combined with the FRS purchases to yield the actual SOS rates that Small Customers will pay in 2010.

Generally, La Capra Associates favors the approach proposed by NGRID. Based upon an analysis of market prices, this appears to be a favorable time to make purchases of electric energy. There are several issues and concerns identified by the review of this application, which are discussed in detail later in this statement. However, the benefits of acting now outweigh the need to address these issues and concerns at this time.
Therefore, La Capra Associates recommends that the APP be approved as filed, with confirmation of the inclusion of interest as noted below.

Description of NGRID's APP

In its APP application, NGRID proposed to enter into a fixed price financial swap for a portion of the forecasted SOS energy requirements for Small Customers in 2010 and part of 2011. Specifically, NGRID proposes a financial swap contract for January 1, 2010 through September 30, 2010 ("period 1") for 95% of the Small Customer energy requirements for that same time period. NGRID also proposes a financial swap contract for October 1, 2010 through March 31, 2011 ("period 2") for 50% of the Small Customer energy requirements for that same time period. NGRID has indicated that it will seek to enter into additional financial swap contracts for period 2 later in 2010.

NGRID proposes to base the financial swap contracts on ISO-NE peak and off-peak Day Ahead Locational Marginal Prices ("LMPs"), as traded on the New York Mercantile Exchange ("NYMEX"). The NYMEX acronym for the ISO-NE peak LMP futures product is "NI", and the ISO-NE off-peak LMP acronym is "KI". These monthly futures are traded and settled daily for approximately the next five years. For years beyond the current and next year, settlements typically yield annual rather than monthly prices. Attachment A shows NYMEX futures prices for ISO-NE peak and off-peak LMPs as settled on April 16, 2009.

Overview of Current Market Prices

Futures prices for ISO-NE peak and off-peak LMPs reached all-time highs in July 2008, and have declined steadily since, recently achieving prices last seen four to five years ago. Attachment B shows the average of the futures prices for calendar year 2010 for settlement dates between April 16, 2008 and April 16, 2009. For example, if a twelve-month strip of ISO-NE peak LMPs for 2010 was purchased on July 5, 2008, the average price for calendar year 2010 would have been approximately $115 per MWH. The same twelve-month strip purchased on April 16, 2009 would have cost an average of approximately $63 per MWH. We concur with the Company's decision to act at this time to lock in energy prices.

Accrual of Interest

In its proposed APP, NGRID will receive a lump sum payment or charge when the financial swap contract is unwound. If market prices have gone up since the contract was signed, NRGID will receive a lump sum payment. If market prices have gone down, NGRID will make a lump sum payment to the counterparty to the swap agreement. In the response to Division Data Request 1-4, NGRID states that interest will be accrued on these credits or charges. However, in the attachments to the responses to Division Data Request 1-4 and OER 1-6, which are provided as examples of how any lump sum payments or charges will flow through to customers, interest does not appear to be included. We assume that this omission resulted from a desire to keep the example simple, and that interest will be accrued in the actual calculations. We recommend that NGRID confirm that interest will be included. Interest should be calculated in a manner consistent with current practice for reconciling SOS costs.

Alternative Hedging Mechanisms

The financial swap contract approach proposed by the Company is but one of many approaches that could be used to address future SOS supply costs. For example, rather than settling a financial swap against NYMEX futures prices on the date of the FRS contract, the financial swap could be settled against actual ISO-NE prices as they occur from month to month. Under this approach, the Company would unwind its swap agreement each month during period 1, as opposed to the date of the FRS contracts. In response to Division Data Request 1-1, the Company stated that:

> *"The point of settling the swap on the same date as the FRS contract award is to complement the pricing in the FRS contract which is based on that date's market view of future prices. Settling the swap contract on the same date as the FRS contract award transfers the value of the hedged commodity prices in the financial swap to the Company's customers and limits the risk that the FRS contracts obtained in the autumn of 2009 could result in significantly higher costs to customers. Settling the hedge against actual monthly commodity procurement prices would remove the hedge benefit from the FRS contracts and would not have the aspect of "locking in" energy prices before the FRS contracts are in place. Contracts for differences settling on actual prices, along with other financial and physical tools, could be used to hedge risk once a managed portfolio is established, but the Company has proposed this hedging combination for the start up of the 2010 supply portfolio."*

While acknowledging that there is no single best manner in which to hedge future costs, there are some concerns about this response. The answer states that the Company could deploy contracts settled against actual prices in a managed portfolio, but couldn't do it in the APP. There is no reason to believe that settling against actual prices could not be effectively done in the APP. We disagree that such an approach would remove the hedge benefit from FRS contracts. In fact, if prices continued to rise, settling against actual prices would yield a higher payment to NGRID, while the proposed FRS would lock in prices on the date of execution of that contract, which could yield lower prices to SOS customers.

Division Data Request 1-10 asked NGRID if FRS contracts could be solicited now, as opposed to waiting until later in 2010.

> *"National Grid could solicit and execute a full requirements contract instead of entering into a fixed price financial swap. However, as set out in Section II.D. of the APP, National Grid perceives the following advantages to its proposal:*
>
> *1. Allows for an expedited solicitation, with a quicker bid turnaround time than FRS contracts, because the ISO-NE Internal Hub is a very liquid and transparent market;*
>
> *2. Allows for competitive and efficient pricing of energy during both the solicitation process and on the settlement date, due to the liquidity of the futures market for ISO-NE Internal Hub prices;*
>
> *3. Allows the Company to efficiently lock in energy prices for those time periods starting out more than twelve months from the award date (i.e. Oct 2010 through March 2011). The Company believes obtaining FRS contracts for periods that start more than twelve months into the future may have higher premiums in the fixed price contracts, due to the larger uncertainty in load forecasts, migration impacts, potential ISO market rule changes, and credit requirements;*

> *4. Allows for a broad spectrum of bidders (beyond that of FRS bidders) with potentially better credit ratings that could result in lower prices for customers;*
> *5. Allows the Company to provide energy price stability and effectively lock in commodity costs to customers in a similar manner as a FRS contract. The table in Attachment 2, Example of Hedging Process using Financial Contract, illustrates how a fixed price financial swap effectively achieves the same commodity costs as a FRS contract issued at the same time. Attachment 2 also shows that that the financial contract would hedge approximately 70% of the total commodity cost, locking in the energy component. The remaining components of total commodity costs, such as capacity, have less volatility. Capacity prices have been fixed seasonally through 2011 in the ISO-NE Forward Capacity Market; and*
> *6. Allows for the transition to a managed portfolio for procuring Standard Offer Service to be implemented more efficiently."*

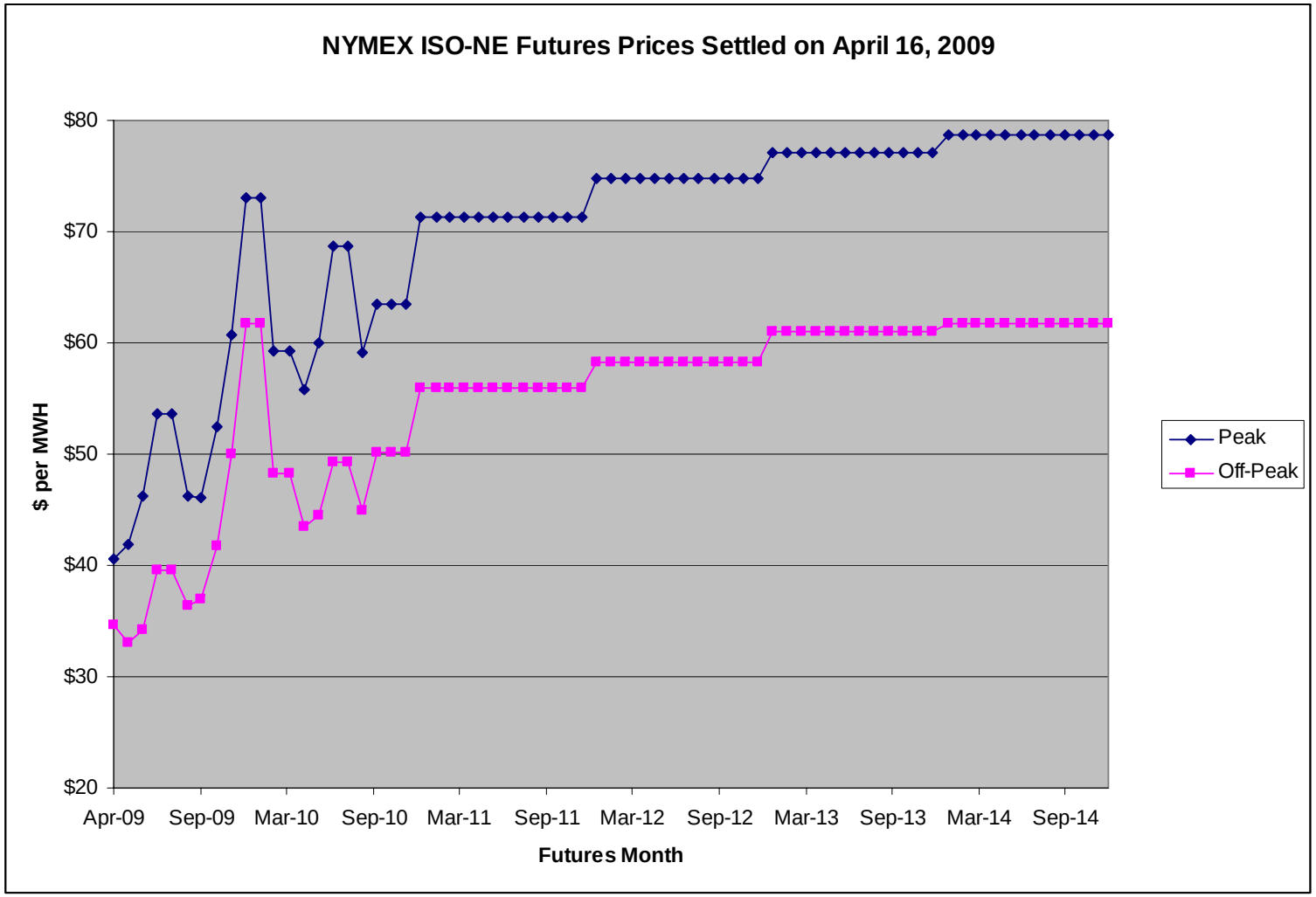
We concur with some of the reasons offered. For example, we do believe that purchasing blocks of energy, as opposed to FRS, could allow a larger, more diverse pool of bidders. There are some concerns here as well, some of which were expressed to NGRID during discussion about their proposed plan. It is not clear how the Company could expect to implement a financial swap, which may not have been used previously in Rhode Island, more expeditiously than a FR contract, which has been used before. At this stage, this point may be moot. Both approaches can be effective in efficiently locking in energy prices. Also, it isn't clear that FR contracts for SOS supply to the Small Customer class would face significant migration risk, as NGRID states elsewhere that this risk is small.

In the interest of moving forward at a time when market prices are favorable, we will not pursue these issues further here, but may re-visit them in future filings.

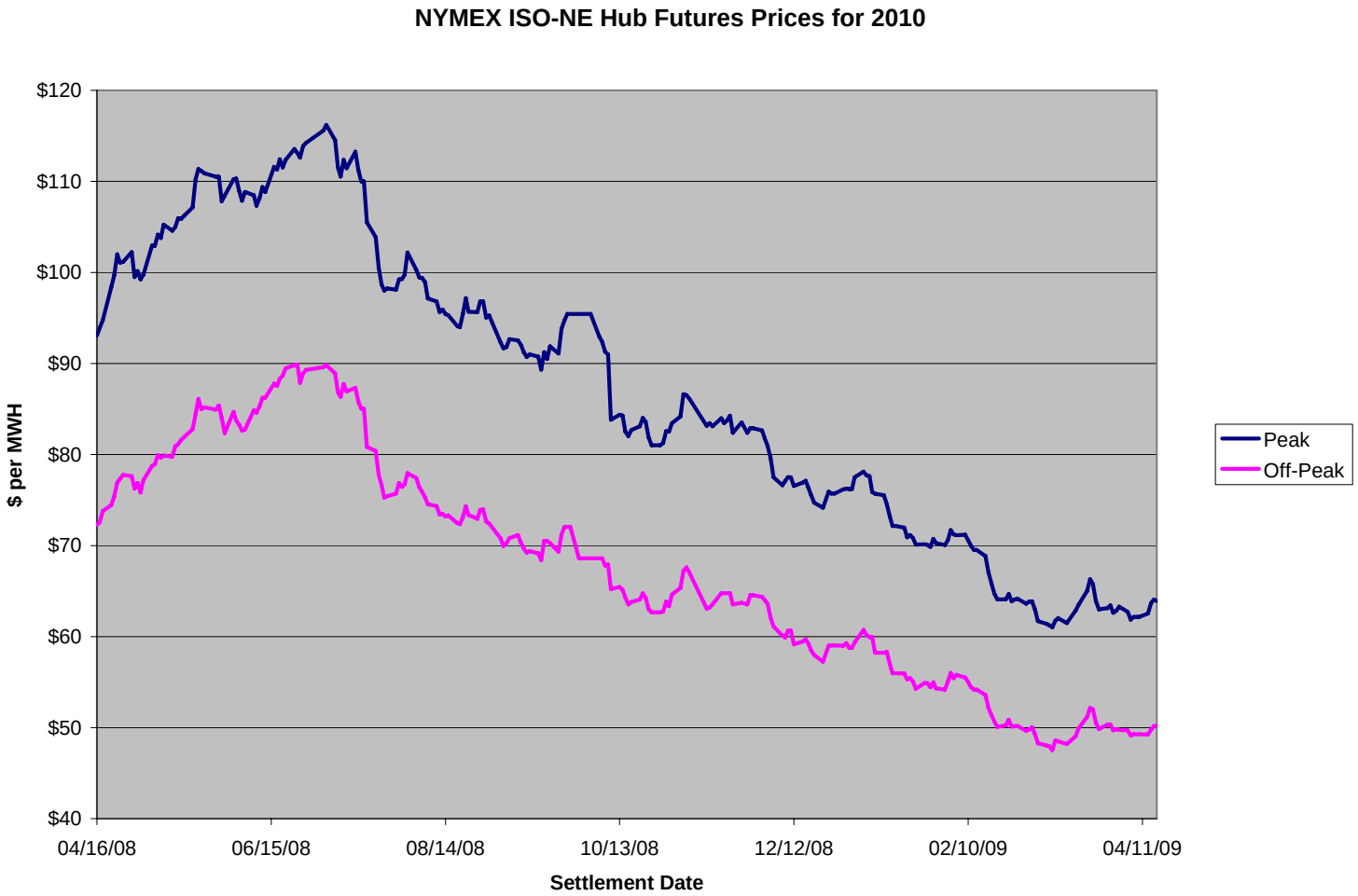
Transition to Managed Portfolio

NGRID should be commended for its upcoming transition to a managed portfolio approach and reducing or eliminating 100% reliance on FRS. We believe that a managed portfolio approach is more likely, in the long run, to produce betters results in terms of lower, more stable SOS prices, especially for the Small Customer class.

Attachment A



Attachment B



La Capra Associates

Richard S. Hahn

Principal Consultant

Mr. Hahn is a senior executive in the energy industry, with diverse experience in both regulated and unregulated companies. He joined La Capra Associates in 2004. Mr. Hahn has a proven track record managing full P&Ls, integrated resource planning, analyzing energy, capacity, and ancillary services markets, valuation of energy assets, creating operational excellence, and developing start-ups. He has demonstrated expertise in electricity markets, utility planning and operations, sales and marketing, engineering, business development, and R&D. Mr. Hahn also has extensive knowledge and experience in both the energy and telecommunications industries. He has testified on numerous occasions before the Massachusetts Department of Telecommunications and Energy, and also before FERC.

SELECTED EXPERIENCE – *LA CAPRA ASSOCIATES*

- Performed a study of non-transmission alternatives (NTAs) to a proposed set of transmission upgrades to the bulk power supply system in Maine.
- Served as a key member of the La Capra Team advising the Connecticut Energy Advisory Board (CEAB) on a wide range of energy issues.
- Performed a study of non-transmission alternatives (NTAs) to a proposed set of transmission upgrades to the bulk power supply system in Vermont.
- Served as an advisor to the Delaware Public Service Commission and three other state agencies in the review of Delmarva Power & Light's integrated resource plan and the procurement of power supplies to meet SOS obligations.
- Served as an expert witness in litigation involving a contract dispute between the owner of a merchant powerplant and the purchasers of the output of the plant.
- Served as an advisor to the Maryland Attorney General's Office in the proposed merger between Constellation Energy and the FPL Group.
- Reviewed and analyzed outages for Connecticut utilities during the August 2006 heat wave. Prepared an assessment of utility filed reports and corrective actions.
- Conducted a study of required planning data and prepared forecasts of the key drivers of future power supply costs for public power systems in New England.
- Reviewed and analyzed Hawaiian Electric Company integrated resource plan and its DSM programs for the State of Hawaii. Prepared written statement of position and testified in panel discussions before the Hawaii Public Utility Commission.
- Assisted the Town of Hingham, MA in reviewing alternatives to improve wireless coverage within the Town and to leverage existing telecommunication assets of the Hingham Municipal Light Plant.

- Conducted an extensive study of distributed generation technologies, options, costs, and performance parameters for VELCO and CVPS.
- Analyzed and evaluated proposals for three substations in Connecticut. Prepared and issued RFPs to seek alternatives in accordance with state law.
- Performed an assessment of merger savings from the First Energy – GPU merger. Developed a rate mechanism to deliver the ratepayers share of those savings. Filed testimony before the PA PUC.
- Prepared long term price forecasts for energy and capacity in the ISO-NE control area for evaluating the acquisition of existing powerplants.
- Conducted an assessment of market power in PJM electricity markets as a result of the proposed merger between Exelon and PSEG. Developed a mitigation plan to alleviate potential exercise of market power. Filed testimony before the PA PUC.
- Performed a long-term locational installed capacity (LICAP) price forecast for the NYC zone of the NYISO control area for generating asset acquisition.
- Evaluated the implementation of an amended purchase power agreement between a large mid-west utility and a very large cogeneration plant. Audited compliance with very complex contract terms and operating procedures and practices.
- Performed asset valuation for energy investors targeting acquisition of major electric generating facility in New England. Prepared forecast of market prices for capacity and energy products. Presented overview of the market rules and operation of ISO-NE to investors.
- Assisted in the performance of an asset valuation of major fleet of coal-fired electric generating plants in New York. Prepared forecast of market prices for capacity and energy products. Analyzed cost and operations impacts of major environmental legislation and the effects on market prices and asset valuations.
- Conducted an analysis of the cost impact of two undersea electric cable outages within the NYISO control area for litigation support. Reviewed claims of cost impacts from loss of sales of transmission congestion contracts and replacement power costs.
- Reviewed technical studies of the operational and system impacts of major electric transmission upgrades in the state of Connecticut. Analysis including an assessment of harmonic resonance and type of cable construction to be deployed.
- Conducted a review of amendments to a purchased power agreement between an independent merchant generator and the host utility. Assessed the economic and reliability impacts and all contract terms for reasonableness.
- Assisted in the development of an energy strategy for a large Midwest manufacturing facility with on-site generation. Reviewed electric restructuring rules, electric rate availability, purchase & sale options, and operational capability to determine the least cost approach to maximizing the value of the on-site generation.
- Assisted in the review of the impact of a major transmission upgrade in Northern New England.

- Negotiated a new interconnection agreement for a large hotel in Northeastern Massachusetts.

SELECTED EXPERIENCE – *NSTAR ELECTRIC & GAS*

President & COO of NSTAR Unregulated Subsidiaries

Concurrently served as President and COO of three unregulated NSTAR subsidiaries: Advanced Energy Systems, Inc., NSTAR Steam Corporation, and NSTAR Communications, Inc.

Advanced Energy Systems, Inc.

- Responsible for all aspects of this unregulated business, a large merchant cogeneration facility in Eastern Massachusetts that sold electricity, steam, and chilled water. Duties included management, operations, finance and accounting, sales, and P&L responsibility.

NSTAR Steam Corporation

- Responsible for all aspects of this unregulated business, a district energy system in Eastern Massachusetts that sold steam for heating, cooling, and process loads. Duties included management, operations, finance and accounting, sales, and P&L responsibility.

NSTAR Communications, Inc.

- Responsible for all aspects of this unregulated business, a start-up provider of telecommunications services in Eastern Massachusetts. Duties included management, operations, finance and accounting, sales, and P&L responsibility.
- Established a joint venture with RCN to deliver a bundled package of voice, video, and data services to residential and business customers. Negotiated complex indefeasible-right-to-use and stock conversion agreements.
- Installed 2,800 miles of network in three years. Built capacity for 230,000 residential and 500 major enterprise customers.
- Testified before the Congress of the United States on increasing competition under the Telecommunications Act of 1996.

VP, Technology, Research, & Development, Boston Edison Company

- Responsible for identifying, evaluating, and deploying technological innovation at every level of the business.
- Reviewed Electric Power Research Institute (EPRI), national laboratories, vendor, and manufacturer R&D sources. Assessed state-of-the-art electro-technologies, from nuclear power plant operations to energy conservation.

VP of Marketing, Boston Edison Company

- Promoted and sold residential and commercial energy-efficiency products and customer service programs.
- Conducted market research to develop an energy-usage profile. Designed a variable time-of-use pricing structure, significantly reducing on-peak utilization for residential and commercial customers.
- Designed and marketed energy-efficiency programs.
- Established new distribution channels. Negotiated agreements with major contractors, retailers, and state and federal agencies to promote new energy-efficient electro-technologies.

Vice President, Energy Planning, Boston Edison Company

- Responsible for energy-usage forecasting, pricing, contract negotiations, and small power and cogeneration activities. Directed fuel and power purchases
- Implemented an integrated, least-cost resource planning process. Created Boston Edison's first state-approved long-range plan.
- Assessed non-traditional supply sources, developed conservation and load-management programs, and purchased from cogeneration and small power-production plants.
- Negotiated and administered over 200 transmission and purchased power contracts.
- Represented the company with external agencies. Served on the Power Planning Committee of the New England Power Pool.
- Testified before federal and state regulatory agencies.

EMPLOYMENT HISTORY

La Capra Associates, Inc.	Boston, MA
Managing Consultant	*2004 – present*
Advanced Energy Systems, Inc.	Boston, MA
President & COO	*2001-2003*
NSTAR Steam Corporation	Cambridge, MA
President & COO	*2001-2003*
NSTAR Communications, Inc.	
President & COO	*1995-2003*
Boston Edison Company	Boston, MA
VP, Technology, Research, & Development	*1993-1995*
VP, Marketing, Boston Edison Company	*1991-1993*
Vice President, Energy Planning, Boston Edison Company	*1987-1991*
Manager, Supply & Demand Planning	*1984-1987*
Manager, Fuel Regulation & Performance	*1982-1984*
Assistant to Senior Vice President, Fossil Power Plants	*1981-1982*
Division Head, Information Resources	*1978-1981*
Senior Engineer, Information Resource Division	*1977-1978*
Assistant to VP, Steam Operations	*1976-1977*
Electrical Engineer, Research & Planning Department	*1973-1976*

EDUCATION

Boston College	Boston, MA
Masters in Business Administration	*1982*
Northeastern University	Boston, MA
Masters in Science, Electrical Engineering	*1974*
Northeastern University	Boston, MA
Bachelors in Science, Electrical Engineering	*1973*

PROFESSIONAL AFFILLIATIONS

Director, NSTAR Communications, Inc.	*1997-2003*
Director, Advanced Energy Systems, Inc.	*2001-2003*
Director, Neuco, Inc.	*2001-2003*
Director, United Telecom Council	*1999-2003*
Head, Business Development Division, United Telecom Council	*2000-2003*
Elected Commissioner – Reading Municipal Light Board	*2005-present*
Registered Professional Electrical Engineer in Massachusetts	